

**REPORT OF THE AUDIT OF THE
CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

October 10, 2003



**Crit Luallen
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

October 10, 2003

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for Clinton County Sheriff as of October 10, 2003. We have issued a qualified opinion on the financial statement taken as a whole. The Sheriff's attorney did not provide us with a legal representation letter as required by auditing standards generally accepted in the United States of America.

Financial Condition:

The Sheriff collected taxes of \$1,782,377 for the districts for taxes, retaining commissions of \$73,719 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,644,861 to the districts for 2002 Taxes. Taxes of \$63,354 are due to the districts from the Sheriff and refunds of \$1,045 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Eliminate The \$37,070 Deficit In His Tax Account
- The Sheriff Should Not have A Shortage In His 2002 Tax Account
- The Sheriff Should Remit \$108,251 To The Taxing Districts
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Record All Tax Collections On Receipts Ledger
- The Sheriff Should Prepare Tax Settlement By September 1
- The Sheriff Should Publish Settlement
- The Sheriff Should Conduct Sale Of Delinquent Tax Bills By April 30 And File All Certificates Of Delinquency In The Clerk's Office Immediately Upon Completion Of The Tax Sale
- The Sheriff Should Pay Advertising Costs To The Fiscal Court
- The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk
- The Sheriff Should Prepare Monthly Bank Reconciliations
- The Sheriff Shall Not Apply Or Use Any Money Received By Him For Any Purpose Other Than That For Which The Money Was Paid Or Collected
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Recordkeeping Procedures
- The Sheriff Should Have Computer Disaster Recovery/Contingency Plans
- The Person Operating The Computer System Should Have Adequate Training

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES
October 10, 2003
(Continued)

Litigation:

- On July 21, 2000, Clinton County legal counsel on behalf of the Clinton County Fiscal Court and Clinton County Taxing Districts, filed a lawsuit in Franklin Circuit Court against Clinton County Sheriff, Kay Riddle and his bonding companies, Great American Insurance Company and United Pacific Insurance Company. This lawsuit seeks to recover \$58,797 owed the Clinton County Fiscal Court and Clinton County Taxing Districts per audit reports for Sheriff's Settlement – 1997 Taxes and Sheriff's Settlement – 1998 Taxes. However, as of October 10, 2003, the Sheriff had paid the following amounts included in the \$58,797: \$227 to the Kentucky State Treasurer and \$28,807 to the Clinton County Board of Education. The suit's outcome cannot be predicted at this time.
- On December 11, 2000, legal counsel on behalf of the Clinton County Sheriff filed a lawsuit in Clinton Circuit Court against the former Clinton County Judge/Executive in her official capacity. On January 6, 2003, the lawsuit transferred against the new Clinton County Judge/Executive in his official capacity. This lawsuit seeks to recover \$53,814 due from the Clinton County Fiscal Court per audit report for Clinton County Sheriff – Calendar Year 1999. These funds represent Sheriff's salary, employer's share of FICA, and unemployment insurance contributions. The suit's outcome cannot be predicted at this time.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

Subsequent Event:

- During the 2003 tax collection period, the Sheriff notified the Kentucky State Auditor's Office that a theft had occurred in his tax account. The Kentucky State Police are conducting an investigation of this matter.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Donnie McWhorter, Clinton County Judge/Executive

Honorable Kay Riddle, Clinton County Sheriff

Members of the Clinton County Fiscal Court

Independent Auditor's Report

We have audited the Clinton County Sheriff's Settlement - 2002 Taxes as of October 10, 2003. This tax settlement is the responsibility of the Clinton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Sheriff's attorney did not provide us with a legal representation letter as required by auditing standards generally accepted in the United States of America.

In our opinion, except for the effects of any matters that might have been disclosed if we had been provided a legal representation letter, the accompanying financial statement referred to above presents fairly, in all material respects, the Clinton County Sheriff's taxes charged, credited, and paid as of October 10, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Donnie McWhorter, Clinton County Judge/Executive

Honorable Kay Riddle, Clinton County Sheriff

Members of the Clinton County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Eliminate The \$37,070 Deficit In His Tax Account
- The Sheriff Should Not Have A Shortage In His 2002 Tax Account
- The Sheriff Should Remit \$108,251 To The Taxing Districts
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Record All Tax Collections On Receipts Ledger
- The Sheriff Should Prepare Tax Settlement By September 1
- The Sheriff Should Publish Settlement
- The Sheriff Should Conduct Sale Of Delinquent Tax Bills By April 30 And File All Certificates Of Delinquency In The Clerk's Office Immediately Upon Completion Of The Tax Sale
- The Sheriff Should Pay Advertising Costs To The Fiscal Court
- The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk
- The Sheriff Should Prepare Monthly Bank Reconciliations
- The Sheriff Shall Not Apply Or Use Any Money Received By Him For Any Purpose Other Than That For Which The Money Was Paid Or Collected
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Recordkeeping Procedures
- The Sheriff Should Have Computer Disaster Recovery/Contingency Plans
- The Person Operating The Computer System Should Have Adequate Training

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, except for the effects of any matters that might have been disclosed if we had been provided a legal representation letter, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Respectfully submitted,



Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -
March 31, 2004

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

October 10, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 128,651	\$ 176,470	\$ 970,950	\$ 327,696
Tangible Personal Property	16,503	13,880	84,632	90,050
Intangible Personal Property				5,798
Fire Protection	998			
Increases Through Exonerations	59	81	444	150
Omitted Taxes	532	708	3,942	1,340
Franchise Corporation Taxes	10,955	9,729	58,396	
Oil and Gas Property Taxes	1,820	2,496	13,732	4,635
Limestone, Sand, and Mineral Reserves	40	54	299	101
Penalties	1,197	5,594	8,806	2,758
Adjusted to Sheriff's Receipt	332	295	1,726	(39)
Gross Chargeable to Sheriff	<u>\$ 161,087</u>	<u>\$ 209,307</u>	<u>\$ 1,142,927</u>	<u>\$ 432,489</u>
<u>Credits</u>				
Exonerations	\$ 1,767	\$ 2,412	\$ 13,269	\$ 4,479
Discounts	2,198	2,848	15,806	6,393
Delinquents:				
Real Estate	7,509	10,260	56,453	19,053
Tangible Personal Property	778	654	3,989	1,093
Oil and Gas Property Taxes	364	493	2,727	922
Uncollected Franchise Corporation Taxes	1,191	1,303	7,472	
Total Credits	<u>\$ 13,807</u>	<u>\$ 17,970</u>	<u>\$ 99,716</u>	<u>\$ 31,940</u>
Taxes Collected	\$ 147,280	\$ 191,337	\$ 1,043,211	\$ 400,549
Less: Commissions *	<u>6,548</u>	<u>8,132</u>	<u>41,728</u>	<u>17,311</u>
Taxes Due	\$ 140,732	\$ 183,205	\$ 1,001,483	\$ 383,238
Taxes Paid	140,444	172,320	948,119	383,978
Refunds (Current and Prior Year)	<u>120</u>	<u>163</u>	<u>900</u>	<u>305</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 168</u>	<u>\$ 10,722</u>	<u>\$ 52,464</u>	<u>\$ (1,045)</u>

The accompanying notes are an integral part of the financial statement.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
October 10, 2003
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	729,166
4% on	\$	1,043,211

** Special Taxing Districts:

Library	\$	45
Health		6,461
Extension Service		2,854
Soil Conservation		<u>1,362</u>
Taxes Due Districts	\$	<u><u>10,722</u></u>

The accompanying notes are an integral part of the financial statement.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT

October 10, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of October 10, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
October 10, 2003
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 27, 2002 through October 10, 2003.

Note 4. Interest Income

The Clinton County Sheriff earned \$793 as interest income on taxes. As of October 10, 2003, the Sheriff owed \$155 in interest to the school district and \$347 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Clinton County Sheriff collected \$14,221 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of October 10, 2003, the Sheriff owed \$10,170 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Clinton County Sheriff collected \$1,280 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff did not distribute the advertising costs to the county as required by statute, nor did he distribute the advertising fees to the fee account. The advertising fees are to be used to operate the Sheriff's office. As of October 10, 2003, the Sheriff owed \$1,030 in advertising costs to the county and \$250 in advertising fees to his fee account.

Note 7. Litigation

- On July 21, 2000, Clinton County legal counsel on behalf of the Clinton County Fiscal Court and Clinton County Taxing Districts, filed a lawsuit in Franklin Circuit Court against Clinton County Sheriff, Kay Riddle and his bonding companies, Great American Insurance Company and United Pacific Insurance Company. This lawsuit seeks to recover \$58,797 owed the Clinton County Fiscal Court and Clinton County Taxing Districts per audit reports for Sheriff's Settlement – 1997 Taxes and Sheriff's Settlement – 1998 Taxes. However, as of October 10, 2003, the Sheriff had paid the following amounts included in the \$58,797: \$227 to the Kentucky State Treasurer and \$28,807 to the Clinton County Board of Education. The suit's outcome cannot be predicted at this time.
- On December 11, 2000, legal counsel on behalf of the Clinton County Sheriff, filed a lawsuit in Clinton Circuit Court against the former Clinton County Judge/Executive in her official capacity. On January 6, 2003, the lawsuit transferred against the new Clinton County Judge/Executive in his official capacity. This lawsuit seeks to recover \$53,814 due from the Clinton County Fiscal Court per audit report for Clinton County Sheriff – Calendar Year 1999. These funds represent Sheriff's salary, employer's share of FICA, and unemployment insurance contributions. The suit's outcome cannot be predicted at this time.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
October 10, 2003
(Continued)

Note 8. Deficit Balance

Based on available records, there is a \$37,070 deficit in the Sheriff's official tax account. This deficit results from undeposited 2002 tax receipts of \$34,498 and a prior year deficit of \$2,572.

The accompanying schedule of excess of liabilities over assets includes net receivables of \$49,318 due from the fee account from 1998-2002. These funds primarily represent overpayments of tax commissions to the fee account, which are tax collections due taxing districts less amounts due to the fee account for 10% add-on fees, interest and advertising fees.

The prior year deficit reported as of November 22, 2003 was \$41,826. We have restated this amount to a prior year deficit of \$2,572. Receivables of \$39,254 due from the fee account for 1998-2001 were not included in the prior year computation.

Note 9. Subsequent Events

During the 2003 tax collection period, the Sheriff notified the Kentucky State Auditor's Office that a theft had occurred in his tax account. The Kentucky State Police are conducting an investigation of this matter.

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SCHEDULE OF EXCESS LIABILITIES OVER ASSETS

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

October 10, 2003

Assets

Cash in Bank (All Tax Accounts)	\$ 25,129
Deposits in Transit	41,379
Collected Receivables	
Uncollected Receivables:	
Net Amount Refunds Due:	
Other Taxing Districts-	
Kentucky State Treasurer	\$ 1,373
Fee Account	49,318
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Total Uncollected Receivables	50,691
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Total Assets	\$ 117,199
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Liabilities

Outstanding Checks	\$ 41
Obligations Paid After Settlement Date	41,996
Unpaid Obligations:	
Other Taxing Districts-	
Clinton County-	
Fiscal Court	\$ 10,874
Board of Education	78,601
Library District	2,179
Health District	8,766
Extension District	5,184
Soil Conservation District	2,647
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Total Net Amount Due To Taxing Districts	\$ 108,251
Amount Due To 2003 Tax Account	2,000
Refunds Due Taxpayers	1,981
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Total Unpaid Obligations	112,232
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Total Liabilities	\$ 154,269
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Total Fund Deficit as of October 10, 2003	\$ (37,070)
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COMMENTS AND RECOMMENDATIONS

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

October 10, 2003

STATE LAWS AND REGULATIONS:

1) The Sheriff Should Eliminate The \$37,070 Deficit In His Tax Account

Based upon available records there is a \$37,070 deficit in the Sheriff's official tax account. This results from undeposited 2002 tax receipts of \$34,498 and a prior year deficit of \$2,572. We found tax receipts that were not deposited into the tax account in a timely manner. The Kentucky State Police are conducting an investigation of this matter.

We recommend that the Sheriff eliminate the deficit with a deposit of personal funds of \$37,070.

Sheriff's Response:

None.

2) The Sheriff Should Not Have A Shortage In His 2002 Tax Account

KRS 522.050 states:

(1) A public servant who is entrusted with public money or property by reason of holding public office or employment, exercising the functions of a public officer or employee, or participating in performing a governmental function, is guilty of abuse of public trust when:

- (a) He or she obtains public money or property subject to a known legal obligation to make specified payment or other disposition, whether from the public money or property or its proceeds; and
- (b) He or she intentionally deals with the public money or property as his or her own and fails to make the required payment or disposition.

(2) A public servant is presumed:

- (a) To know any legal obligation relative to his or her criminal liability under this section; and
- (b) To have dealt with the public money or property as his or her own when:
 - 1. He or she fails to account upon lawful demand; or
 - 2. An audit reveals a shortage or falsification of accounts.

The Sheriff had a shortage of \$34,498 in his 2002 tax account as of October 10, 2003, which is comprised of undeposited 2002 tax receipts. We have referred this matter to the Kentucky State Police.

Sheriff's Response:

None.

CLINTON COUNTY
 KAY RIDDLE, COUNTY SHERIFF
 COMMENTS AND RECOMMENDATIONS
 October 10, 2003
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

3) The Sheriff Should Remit \$108,251 To The Taxing Districts

The proper distribution of tax money collected by the Sheriff requires the collection of receivables and distributing the payables to the appropriate taxing districts. The county's districts rely on the tax collections to provide services, and these services could suffer as a result of not receiving their tax collections. The following net payables (1997 tax year – 2002 tax year) should be made to the taxing districts. We recommend that the Sheriff pay the amounts below.

County	\$ 10,874
School	78,601
Library District	2,179
Health District	8,766
Extension District	5,184
Soil Conservation District	<u>2,647</u>
Total	<u><u>\$ 108,251</u></u>

Sheriff's Response: None.

4) The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month

In some months, the Sheriff did not report and distribute money collected during the preceding month by the tenth of the following month as required by KRS 134.300. In other months, the Sheriff neither reported nor paid taxes at all. We recommend the Sheriff comply with KRS 134.300, which requires the reporting, and distribution of each month's collections by the tenth of the following month.

Sheriff's Response: None.

5) The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "...that part of investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2002 tax collections, the Sheriff failed to pay the appropriate interest to the school leaving a balance due the school of \$155 and the Sheriff failed to pay any interest to the fee account leaving a balance due the fee account of \$347. We recommend that the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due the school and fee account on a monthly basis.

Sheriff's Response: None.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
October 10, 2003
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

6) The Sheriff Should Deposit Funds Intact On A Daily Basis

Technical Audit Bulletin 93-002, Section 3 and Section 4, requires the Sheriff to reconcile daily collections to daily deposits and to deposit funds intact on a daily basis. During 2002 tax collections, we noted that computerized tax collection reports were not printed daily and reconciled to the cash drawer. When these tax collection reports were printed, they included anywhere from a couple of days to an entire month of collections. Additionally, it was noted that deposits were not made intact on a daily basis, checks were found that had not been deposited at all, and tax bills were included on the delinquent tax list that had been paid. We recommend the Sheriff print daily tax collection reports, reconcile these collection reports to the funds collected and deposit these tax collections into the tax bank account daily.

Sheriff's Response: None.

7) The Sheriff Should Record All Tax Collections On Receipts Ledger

KRS 134.160 requires the Sheriff to "keep an accurate account of all moneys received by him, showing the amount, the time when and the person from whom received, and on what account." The Sheriff did not record all money collected on his receipts ledger. We recommend the Sheriff comply with KRS 134.160 that requires an accurate account of all moneys received.

Sheriff's Response: None.

8) The Sheriff Should Prepare Tax Settlement By September 1

Sheriff Riddle should make his tax settlement with the fiscal court by September 1 each year as required by KRS 134.310. The fiscal court approved the Sheriff's settlement on December 12, 2003. KRS 134.310 states "the report of the state and local settlement shall be filed in the county clerk's office and approved by the county judge/executive no later than September 1 of each year." We recommend the Sheriff comply with this statute.

Sheriff's Response: None.

9) The Sheriff Should Publish Settlement

KRS 134.310(2) requires the publishment of Sheriff's settlement. The Sheriff did not publish his settlement of 2002 taxes. The settlement should be published pursuant to KRS Chapter 424. We recommend the Sheriff publish his settlement in the future.

Sheriff's Response: None.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
October 10, 2003
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

10) The Sheriff Should Conduct Sale Of Delinquent Tax Bills By April 30 And File All Certificates Of Delinquency In The Clerk's Office Immediately Upon Completion Of The Tax Sale

KRS 134.325 requires the Sheriff to "conduct the sale of delinquent tax bills required by KRS 134.430 and make his records available for settlement with the Revenue Cabinet for all taxes collected for the Commonwealth before April 30 of each year during his term of office." The Sheriff conducted the sale of delinquent tax bills on October 10, 2003. Therefore, the Revenue Cabinet was unable to complete a settlement until October 30, 2003. We also noted that the delinquent tax bill list was incorrect, including tax bills that had been paid. The Sheriff also did not turn his delinquent taxes over to the clerk on October 10, 2003. KRS 134.450(3) requires the sheriff to "file all certificates of delinquency in the county clerk's office immediately upon completion of the tax sale." We recommend the Sheriff conduct the sale of delinquent tax bills and make his correct records available for settlement with the Revenue Cabinet for all taxes collected for the Commonwealth before April 30 each year. We also recommend that the Sheriff file all certificates of delinquency in the Clerk's office immediately upon completion of the tax sale.

Sheriff's Response: None.

11) The Sheriff Should Pay Advertising Costs To The Fiscal Court

KRS 134.440 requires that advertising costs recovered from the taxpayers be paid to the fiscal court when the fiscal court has previously paid this expense. Sheriff Riddle collected \$1,280 in advertising fees and advertising costs from taxpayers during 2002 tax year. We also noted that the collection of these advertising fees and costs from the taxpayers were never recorded. We recommend the Sheriff properly record all collections and pay the \$250 of advertising costs to the County Treasurer and \$1,030 of advertising fees to the Sheriff's Fee account.

Sheriff's Response: None.

12) The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk

The Sheriff is required to transfer any delinquent franchise tax bills to the county clerk after the tax sale and settlement. We noted that the Sheriff had not transferred the delinquent franchise tax bills to the clerk. In addition, the Sheriff collected a franchise tax bill after the settlement date and did not report the collection of the franchise tax bill. We recommend the Sheriff transfer any delinquent tax bills to the county clerk after the tax sale and settlement are completed. We also recommend that the Sheriff not collect any delinquent taxes after the tax sale date.

Sheriff's Response: None.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
October 10, 2003
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

13) The Sheriff Should Prepare Monthly Bank Reconciliations

KRS 68.210 requires the Sheriff prepare monthly bank reconciliations. Based upon our review of the Sheriff's records, it appears that no bank reconciliations were completed during the tax collection period. We recommend the Sheriff prepare monthly bank reconciliations and comply with this statute.

Sheriff's Response: None.

14) The Sheriff Shall Not Apply Or Use Any Money Received By Him For Any Purpose Other Than That For Which The Money Was Paid Or Collected

Based upon information available to the auditors, there appears to be a deficit of \$37,070 in the Sheriff's 2002 tax account. Since this deficit resulted from undeposited receipts, this money was not applied to the purpose intended. In addition, tax money over the amount of tax commissions was transferred to the fee account to pay fee expenses. KRS 134.140 states that "the Sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected" except for investments and expenditures permitted by this statute. We recommend the sheriff balance his books on a daily basis and on the first day of each month, so as to show shortages on the exact day. We also recommend that the Sheriff pay actual tax commissions earned to the fee account on a monthly basis.

Sheriff's Response: None.

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

15) Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. If the other recommendations in this audit report are implemented, then we would recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare daily bank deposits with the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled on paper and kept for records. He could document his comparisons by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the monthly tax reports to receipts ledger and disbursements ledger. Any differences should be reconciled on paper and kept for records. He could document his comparisons by initialing the monthly tax reports, receipts ledger, and the disbursements ledger.
- The Sheriff should recount and deposit cash. He could document the recount by initialing the bank deposit and the daily checkout.

CLINTON COUNTY
KAY RIDDLE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
October 10, 2003
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:
(Continued)

15) Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should have dual signatures on all disbursement checks

Sheriff's Response: None.

16) The Sheriff Should Improve Recordkeeping Procedures

Based upon the review of Sheriff's records the following are several areas that were noted as having poor recordkeeping. We recommend the Sheriff's office improve these areas not only to properly report receipts and disbursements, but also to lower audit costs in the future.

- Tax collections were not documented and accounted for properly. In some instances checks were found by auditors in boxes and not deposited until the auditors brought it to the Sheriff's office's attention. Tax collections were not recorded on the receipts ledger or distributed properly. Not all tax collections were deposited into the bank and tax collections for the taxing districts were not always paid to the taxing districts.
- Reconciliations of monthly tax collections to the bank statement and respective monthly tax distribution were not always performed. By reconciling these amounts the Sheriff could ensure that all tax collected had been reported and paid to the taxing districts.
- Discounts and penalties on all oil property and franchise tax bills were not reported. All discounts credited and penalties collected should be included on monthly tax reports.
- A list of returned checks was not maintained. The Sheriff's office should keep a list of returned checks noting the date of redeposit. In addition, redeposits of returned checks should be made as separate deposits. The deposit slip should be marked as a redeposit of a returned check and the name of the party listed. Any uncollected returned checks should result in the corresponding tax bill being included on the delinquent tax list.
- Processing of franchise tax collections should be improved. Payments for franchise tax bills are held for months before being deposited to the official bank account. Also, franchise bills were not marked paid. Franchise tax bills should be marked paid upon collection. The payment should be deposited within three business days to the official bank account and recorded on the receipts ledger.

Sheriff's Response: None.

CLINTON COUNTY
 KAY RIDDLE, COUNTY SHERIFF
 COMMENTS AND RECOMMENDATIONS
 October 10, 2003
 (Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:
 (Continued)

17) The Sheriff Should Have Computer Disaster Recovery/Contingency Plans

The Sheriff's computer crashed during the tax collection period and the Sheriff did not record the tax collections after the computer crashed. We recommend the Sheriff's office have a contingency plan developed for alternative processing in the event of loss or interruption of the EDP function. When contingency plans are developed, they should be tested for adequacy in the event of a disaster.

Sheriff's Response: None.

18) The Person Operating The Computer System Should Have Adequate Training

The person operating the computer system should have adequate training in the use of the system and key applications. We recommend the Sheriff's office provide training for both general computer operations and software packages for current and new computer operators. This training should include initial as well as refresher courses.

Sheriff's Response: None.

PRIOR YEAR:

In the prior year audit report, we made the following comments and recommendations, which have not been corrected:

- The Sheriff Should Eliminate The Deficit In His Tax Account
- The Sheriff Should Close His Tax Accounts By Paying All Amounts Owed
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Record All Tax Collections On Receipts Ledger
- The Sheriff Should Prepare Tax Settlement By September 1
- The Sheriff Should Publish Settlement
- The Sheriff Should Conduct Sale Of Delinquent Tax Bills By April 30
- The Sheriff Should Pay Advertising Costs To The Fiscal Court
- The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Recordkeeping Procedures

In the prior year audit report, we made the following comment and recommendation, which has been corrected:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral of \$62,250 To Protect Deposits

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie McWhorter, Clinton County Judge/Executive
Honorable Kay Riddle, Clinton County Sheriff
Members of the Clinton County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Clinton County Sheriff's Settlement - 2002 Taxes as of October 10, 2003, and have issued our report thereon dated March 31, 2004. The opinion was qualified because the Sheriff's attorney did not provide us with a legal representation letter as required by auditing standards generally accepted in the United States of America. Except as discussed in the prior sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Clinton County Sheriff's Settlement - 2002 Taxes as of October 10, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The \$37,070 Deficit In His Account
- The Sheriff Should Not Have A Shortage In His 2002 Tax Account
- The Sheriff Should Remit \$108,251 To The Taxing Districts
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Record All Tax Collections On Receipts Ledger
- The Sheriff Should Prepare Tax Settlement By September 1
- The Sheriff Should Publish Settlement
- The Sheriff Should Conduct Sale Of Delinquent Tax Bills By April 30 And File All Certificates Of Delinquency In The Clerk's Office Immediately Upon Completion Of The Tax Sale
- The Sheriff Should Pay Advertising Costs To The Fiscal Court
- The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance (Continued)

- The Sheriff Should Prepare Monthly Bank Reconciliations
- The Sheriff Shall Not Apply Or Use Any Money Received By Him For Any Purpose Other Than That For Which The Money Was Paid Or Collected

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clinton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Recordkeeping Procedures
- The Sheriff Should Have Computer Disaster Recovery/Contingency Plans
- The Person Operating The Computer System Should Have Adequate Training

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen,
Auditor of Public Accounts

Audit fieldwork completed -
March 31, 2004

